

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5933-01  
Bill No.: HB 1835  
Subject: Newspapers and Publications; Taxation and Revenue - Sales and Use;  
Disabilities; Medicaid  
Type: Original  
Date: March 6, 2012

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Bill Summary: This proposal would eliminate the sales tax exemption on newspaper equipment, material, and supplies, and would provide for the use of that sales tax revenue to provide assistance to certain blind individuals with the payment of health care costs.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
General Revenue	(\$47,800)	(\$68,759)	(\$69,462)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$47,800)</b>	<b>(\$68,759)</b>	<b>(\$69,462)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Blind Medical Subsidy	More than \$100,000	More than \$100,000	More than \$100,000
Conservation Commission	Less than \$100,000	Less than \$100,000	Less than \$100,000
Parks, and Soil and Water	Less than \$100,000	Less than \$100,000	Less than \$100,000
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	2	2	2
<b>Total Estimated Net Effect on FTE</b>	<b>2</b>	<b>2</b>	<b>2</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Local Government	More than \$100,000	More than \$100,000	More than \$100,000

### FISCAL ANALYSIS

#### ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of the State Treasurer** and the **Department of Health and Senior Services** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP), assume this proposal would not result in additional costs or savings to their organization.

This proposal would remove an existing exemption for materials used in newspaper publication, including ink, paper, film and machinery. New revenues would be deposited into the newly created Blind Medical Subsidy Fund. However, BAP assumes that only the GR and Education revenues would be deposited into the new fund; constitutional sales taxes would be deposited into the corresponding dedicated funds.

BAP assumes for this analysis that newspapers would not be eligible for existing sales exemptions, such as those for inputs to a manufacturing process or for items for resale.

According to the United States Census Bureau Statistical Abstract, Table 1135, in Missouri, there are 817,000 newspapers circulated each day. BAP assumes papers are printed 360 days each year, for a total of 298,205,000 papers annually. BAP notes this may exclude publications distributed on a national basis.

BAP estimates the average daily price of a newspaper ranges from \$0.40 to \$0.70, based on the small sample of prices presented in the table below. Total circulation revenues, based on the estimate above, therefore range from just under \$119.9 million to over \$208.7 million annually.

According to the annual report filed by the New York Times Company, 2/23/2012, costs for "raw materials" and "other costs" range from 17% to 50% of circulation revenues. Therefore, newly taxable costs may range from just under \$20.4 million to just under \$104.4 million annually, depending on total newspaper revenues and the applicable cost ratio.

ASSUMPTION (continued)

As shown in the tables below, this would increase revenues for the Blind Medical Subsidy Fund by \$0.8 to \$4.2 million each year, with additional increases to other state and local revenues.

Newspaper	Subscription Price	Annual Subscription Rate	Estimated price per day	Single copy price
S. Louis Post	\$2.49 per week	\$129.48	\$0.36	\$1.00
Kansas City Star	\$2.50 per week	\$130.00	\$0.36	\$0.75
Springfield Daily News	\$16.31 per month	\$195.72	\$0.54	\$0.75
Columbia Daily Tribune	\$13.15 per month	\$157.80	\$0.44	\$0.75
Jefferson City News Tribune	\$113.11 per year	\$113.11	\$0.31	\$0.50
Estimated Average Price			\$0.402	\$0.70

Estimated daily statewide circulation = 817,000

Total editions circulated (365 x 817,000) = 298,205,000

Total revenue at average subscription price (298,205,000 x \$0.402) = \$119,878,410

Total revenue at average newsstand price (298,205,000 x \$0.70) = \$208,743,500

ASSUMPTION (continued)

Revenues	Subscription price \$119,878,410			Newsstand price \$208,743,500	
Estimated cost ratio	17%	50%		17%	50%
Estimated cost	\$20,379,330	\$59,939,205		\$35,486,395	\$104,371,750
General Revenue Fund @ 3%	\$611,380	\$1,798,176		\$1,064,592	\$3,131,153
School District Trust Fund @ 1%	\$203,793	\$599,392		\$354,864	\$10,437,148
Total Revenues for Blind Medical Subsidy Fund	\$815,173	\$2,397,568		\$1,419,456	\$4,174,871
Conservation Commission Fund @ .1%	\$25,474	\$74,924		\$44,358	\$130,465
Parks, and Soil and Water Fund @ .0125%	\$20,379	\$59,939		\$35,486	\$104,372
Total state funds	\$861,026	\$2,532,431		\$1,499,300	\$4,409,708
Local Governments @ 2.5%	\$509,483	\$1,498,480		\$887,160	\$2,609,294

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would eliminate the current sales tax exemption for the specific items listed in the proposal.

If these provisions supersede other sales tax exemptions that might be claimed by companies that produce newspapers, Total State Revenue would be increased. All proceeds would be deposited in the Blind Medical Subsidy Fund created in the proposal.

DOR and ITSD-DOR would need to make programming changes to various tax systems.

Administrative impact

DOR officials assume that Collections and Tax Assistance would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 8,300 additional registrations and maintenance to business tax accounts, and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 24,000 additional contacts annually to the registration phone line, with CARES equipment and agent license.

Sales Tax would need to set up an item tax for these sellers. The Department and ITSD (DOR) would need to complete programming to establish the item tax and divert the amount on cashiering reports to the fund created in this proposal.

DOR officials stated that they would need to identify the sellers of the products which would no longer be exempt. Once those sellers were identified DOR would need to add the item tax to each of their locations and notify the sellers to collect and report the tax. The Department has no estimate on the number of sellers it would need to contact.

DOR officials provided an estimate of the cost to implement this proposal including two additional employees with related equipment and expense totaling \$80,081 for FY 2013, \$81,133 for FY 2014, and \$81,984 for FY 23015.

**Oversight** assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2013 could be reduced by roughly \$6,000 for each additional employee.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

These provisions would become effective January 1, 2013 (FY 2013) and Oversight will include costs for six months of FY 2013.

IT impact

DOR officials also provided an estimate of the IT cost to implement this proposal of \$40,068 based on 1,512 hours of programming to DOR systems.

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the **Department of Social Services** did not respond to our request for information.

**Oversight** has reviewed the available information about newspaper circulation from the United States Census Bureau, which indicates that daily and weekly newspaper circulation for Missouri is approximately 1.68% of the total for the United States. Census Bureau information also indicated that print newspaper revenues for the United States was \$29.9 billion in 2009. Accordingly, Oversight assumes that a reasonable estimate of Missouri print newspaper revenues would be  $(1.68\% \times \$29,900,000,000) = \$502.3$  million.

We could not locate information on sales of newspaper printing parts and equipment, but a published industry report indicated that newsprint and ink make up about 15% of operating expenses, and that the average industry profit is almost 16 percent. Therefore, costs are assumed to be approximately equal to 84% of revenues or  $(84\% \times \$502 \text{ million}) = \$422$  million, and newsprint and ink would be approximately  $(15\% \times \$422 \text{ million}) = \$63$  million.



ASSUMPTION (continued)

The estimated sales tax revenues on that amount would be as follows.

Taxing Authority	Tax Rate	Sales Tax Revenues
General Revenue Fund *	3%	\$1,890,000
School District Trust Fund *	1%	\$630,000
Conservation Commission Fund	1/4%	\$7,875
Parks, and Soil and Water Fund	1/10%	\$6,300
Local Governments	2.5%	\$1,575,000

\* These revenues would be deposited to the newly created Blind Medical Subsidy Fund.

The actual amount of sales tax revenues would likely be greater than the amount calculated above by an unknown amount, due to sales tax on equipment and parts, and sales tax revenues from newsprint, ink, equipment, and supplies sold to companies which produce free and tabloid publications for which circulation and other information was not available.

For fiscal note purposes, Oversight will indicate additional revenues in excess of \$100,000 to the Blind Medical Subsidy Fund and local governments, and additional revenue less than \$100,000 for the Conservation Commission Fund and the Parks, and Soil and Water Fund.

**Oversight** assumes that the expenditures for health care for blind persons would be included in the state budget and appropriated, and will not indicate those expenditures as a cost for fiscal note purposes.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (6 Mo.)	FY 2014	FY 2015
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Department of Revenue</u>			
Salaries (2 FTE)	(\$22,020)	(\$44,040)	(\$44,480)
Benefits	(\$11,561)	(\$23,121)	(\$23,352)
Equipment and expense	(\$14,219)	(\$1,598)	(\$1,630)
Total	<u>(\$47,800)</u>	<u>(\$68,759)</u>	<u>(\$69,462)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$47,800)</u></b>	<b><u>(\$68,759)</u></b>	<b><u>(\$69,462)</u></b>
Estimated net FTE effect on General Revenue fund	2	2	2
<b>BLIND MEDICAL SUBSIDY FUND</b>			
<u>Revenue - sales tax</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
<b>ESTIMATED NET EFFECT ON BLIND MEDICAL SUBSIDY FUND</b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>
<b>CONSERVATION COMMISSION FUND</b>			
<u>Additional revenue - sales tax</u>	<u>Less than \$100,000</u>	<u>Less than \$100,000</u>	<u>Less than \$100,000</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>Less than \$100,000</u></b>	<b><u>Less than \$100,000</u></b>	<b><u>Less than \$100,000</u></b>

**PARKS, AND SOIL AND WATER  
 FUND**

<u>Additional revenue</u> - sales tax	<u>Less than</u> <u>\$100,000</u>	<u>Less than</u> <u>\$100,000</u>	<u>Less than</u> <u>\$100,000</u>
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<b>ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND</b>	<b><u>Less than</u> <u>\$100,000</u></b>	<b><u>Less than</u> <u>\$100,000</u></b>	<b><u>Less than</u> <u>\$100,000</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
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**LOCAL GOVERNMENTS**

<u>Additional revenue</u> - sales tax	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
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<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<b><u>More than</u> <u>\$100,000</u></b>	<b><u>More than</u> <u>\$100,000</u></b>	<b><u>More than</u> <u>\$100,000</u></b>
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FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to a small businesses which buys the supplies and equipment which wold no longer be subject to the sales tax exemption.

FISCAL DESCRIPTION

This proposal would eliminate the sales tax exemption on newspaper equipment, material, and supplies, and would provide for the use of that sales tax revenue to provide assistance to certain blind individuals with the payment of health care costs.

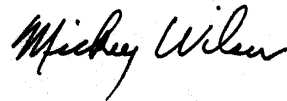
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Office of the State Treasurer  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Health and Senior Services  
Department of Revenue

NOT RESPONDING

**Department of Social Services**

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
March 6, 2012